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27 February 1957

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**OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY**

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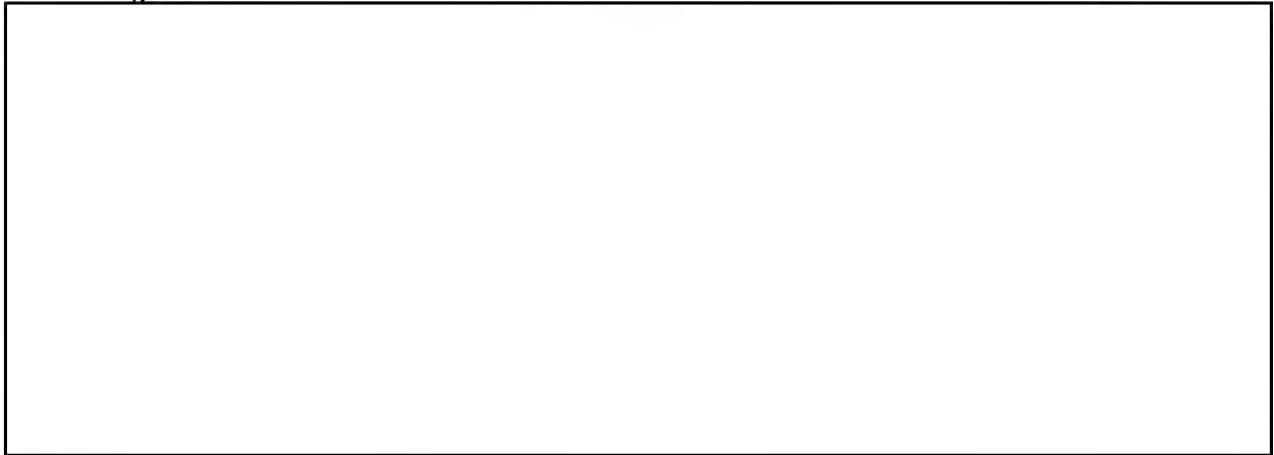
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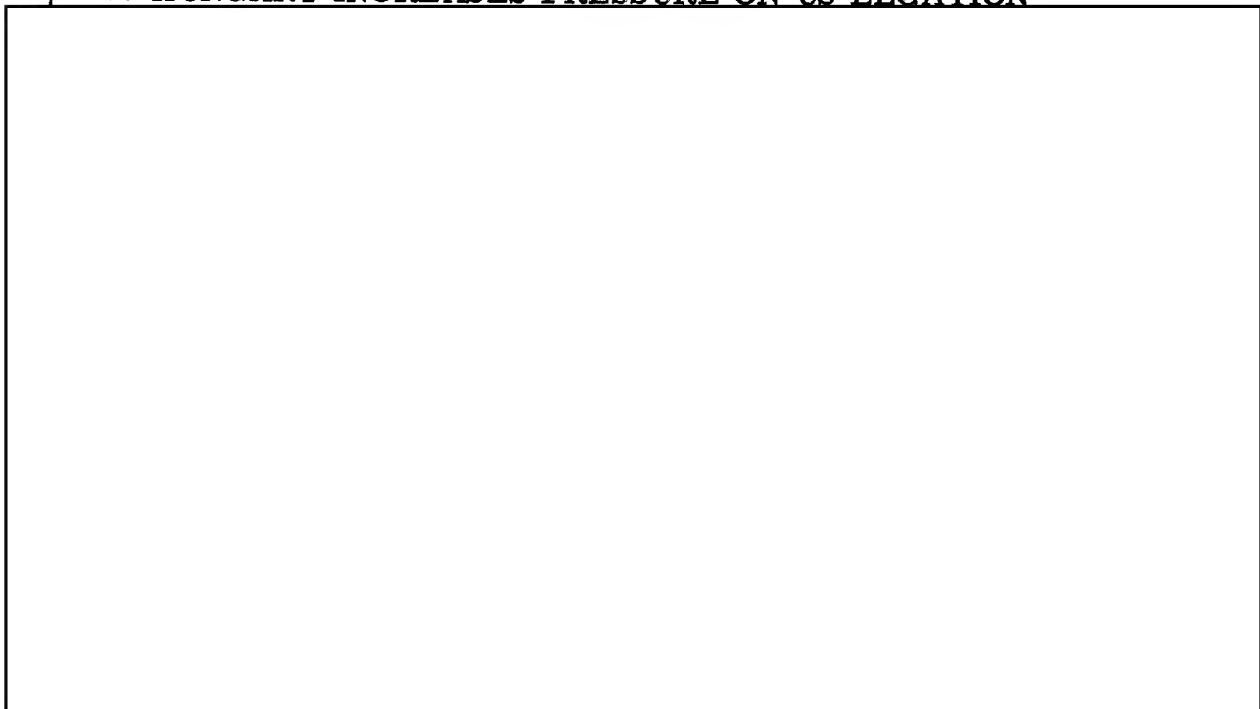
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4. PEIPING PRUNES MILITARY SPENDING

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The director of the Rear Service Department of the Chinese Communist armed forces has announced that, in accordance with the policy of reducing military expenditures to provide funds for economic construction, the 1957 operational fund for his department would be cut by one third.

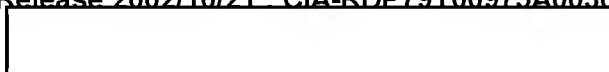
Comment

This announcement does not establish an across-the-board reduction for the military forces, but may indicate that one will be made. The Rear Service Department is the central supply organ of the Chinese armed forces. A cut in military appropriations for the year would be in keeping with a general paring of Chinese Communist appropriations for 1957, except in industrial construction projects, where Peiping hopes to maintain last year's level of investment.

Last December party units in various of the armed services launched austerity campaigns. The party committee in the navy suggested that it was both necessary and possible to reduce naval expenses, postpone some naval construction projects and save money in support of economic construction.

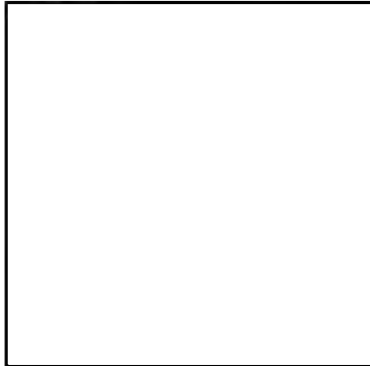


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5. HUNGARY INCREASES PRESSURE ON US LEGATION

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The Hungarian government's demand for the recall of American minister Edward T. Wailes unless he immediately presents his credentials to the Kadar regime presumably is part of an increased effort to isolate and discredit the American legation in Budapest. The arrest of Hungarians leaving Western missions, attacks on Cardinal Mindszenty now in asylum in the American legation, and the continued attempt by regime newspapers to connect American officials with the Hungarian revolution suggest the possibility of a Stalinist-type show trial involving the United States.

The request for Wailes' recall, in the form of a note presented to American officials on 22 February, termed his failure to present credentials since his arrival in early November a "delay untenable in international law," and asserted that Mr. Wailes was carrying on official activities which "in their present form" were "irreconcilable with international practice."

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